

Rural Infrastructure Development Project in Emerging - 2018

The audit of financial statements of the Rural Infrastructure Development Project in Emerging Regions for the year ended 31 December 2018 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article IV of the Loan Agreement No. SL-P116 SRI (SF) dated 07 July 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. My comments and observation which consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Provincial Councils and Local Government presently Ministry of Internal and Home Affairs and Provincial Councils and Local Government is the Executing Agency and Provincial Councils of 04 Provinces are the Implementing Agencies of the Project. The objectives of the Project is to raise living standards and to develop livelihoods of people through improvement of basic infrastructure. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 15,410 million equivalent to Rs.20,622 million and out of that Japan Yen 12,957 million equivalent to Rs.17,185 million was agreed to be financed by Japan International Cooperation Agency. The Project had commenced its activities on 07 July 2017 and scheduled to be completed by 30 September 2021.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Physical Performance

2.1 Physical progress of the activities of the Project

According to the implementation schedule in the Project Memorandum, the works under 224 sub projects for construction and rehabilitation of rural roads, 221 sub projects for construction and rehabilitation of irrigation systems and 73 sub projects for water supply schemes in Northern, North Central, Eastern and Uva Provinces were scheduled to be commenced during the year under review. However, the respective works had not been commenced even as at 31 December 2018 due to delays in appointment of the Consultant.

2.2 Issues Related to Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) Eventhough the Department of Management Services had approved the position of Senior Engineer, Procurement Specialist on 08 September 2017, the respective posts were remained vacant during the year under review.	Delays in implementing of the activities of the Project.	The officers selected for this position had not reported for woks. The functions of this vacant post are carried out by the Project Director and Deputy Project Director.	There should be an officer responsible for the subject of procurement to implement the process in efficient and prudent manner.
(b) As per paragraph 02 of the Circular No 1/2016 of the Department of Management Services, evaluation on staff performance had not been carried out during the year, as the duties of employees of the Project was not properly delegated by the Project Director.	Contribution of the employee to achieve the targets not measured.	Once the audit had pointed out, the duty lists have been issued to the officers.	Action need to be taken to evaluate the performance of the officers to measure the achievements.

2.3 Systems and Control

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Eventhough the meetings of the Project Steering Committee required to be held once in 02 months as per Management Service Circular No 1/2016 of 24 March 2016, only 02 meetings had been held during the year under review.	The mechanism on monitoring of the activities of the Project not implemented properly.	The Project had not been fully implemented and therefore, less number of meetings had been held.	The meetings of the Project Steering Committee are required to be held regularly as enable to review the activities of the Project.